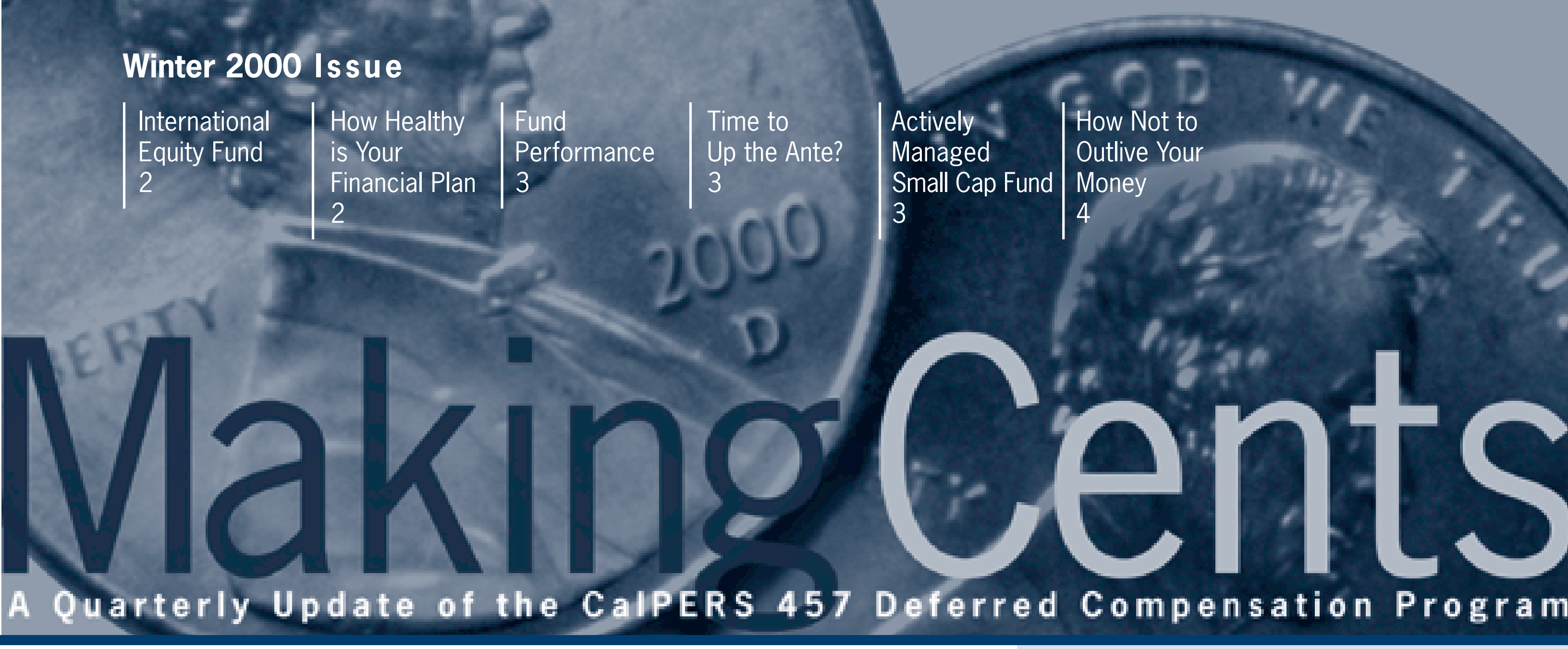


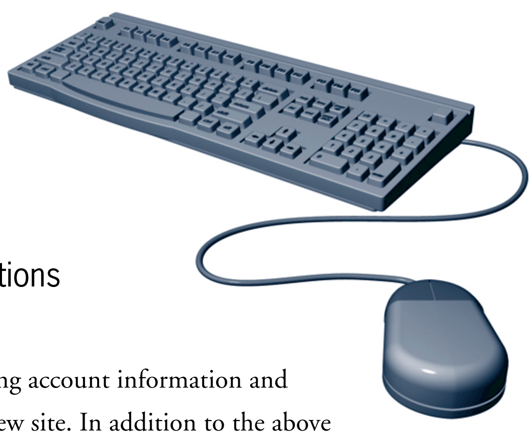
Winter 2000 Issue

Making Cents

A Quarterly Update of the CalPERS 457 Deferred Compensation Program

FIND IT ON-LINE

CalPERS 457 Deferred Compensation Program is expanding its web site to provide you more information about our program and investing for your future. State Street Bank, administrator for the CalPERS 457 Program, is creating a web site that will allow participants to learn about fund choices, investment performance, fees and investor profiles. You can also learn how to structure a long-term financial plan with easy investment tips and gain access to retirement planning calculators. The web site will be on-line by late January 2000. It can be accessed from CalPERS On-Line at **www.calpers.ca.gov** or by going directly to the site at **www.calpers.ssga.com**.



On-Line Account Transactions Coming Soon:

In Spring 2000, we will be adding account information and transaction capabilities to our new site. In addition to the above features, you will be able to:

- View account information including account balances and investment elections;
- Perform account transactions, such as changing investment elections for future contributions and reallocating current account balances;
- Retrieve and print 457 plan forms.

457 Reforms Stalled – Contribution Limits Remain The Same For 2000

In our last issue of ***Making Cents***, we reported on significant federal retirement plan reforms pending before Congress that would:

- Equalize the contribution limits on 457, 403(b), and 401(k) plans to the same level and raise the maximum to $15,000 per year for each type of plan,
- Remove the current percentage of compensation limit so that an employee would be able to contribute 100% of their salary up to the $15,000 maximum to any of these plans,
- Allow employees to rollover assets between 457, 403(b), 401(k) and IRA's, and purchase past service credit in defined benefit plans such as the CalPERS pension plan using 457, 403(b), or 401(k) funds.
- Give 457 plan participants greater flexibility to change the amount and timing of their distributions from the plan.

Continued on p.4

International Equity Fund

Manager: State Street Global Advisors

Performance:

Q399	1 Year	3 Year
16.35%	36.43%	5.36%

Fee: 0.68%

Objective: The International Equity Fund seeks to maximize returns through investment in large, growth-oriented globally competitive companies. It strives to outperform the MSCI EAFE Index in all market environments with a similar degree of risk. The fund seeks capital appreciation in international stocks through an active management strategy. The strategy focuses on identifying growth opportunities among the most competitive and dominant companies outside the United States. The fund maintains broad diversification by neutralizing explicit country and currency risks, and seeks to add value through identification of attractive themes, sectors, and companies that are best positioned to provide superior performance over a three and five year time horizon. The portfolio usually contains the securities of between 45-55 companies.

Investor Profile: A moderately aggressive investor willing to accept some risk and market fluctuations for the possibility of long-term growth.

How Healthy Is Your Financial Plan?

Financial planning is a little like exercise—we all know we need it, yet it's easy to ignore. Why invest time with a financial plan? To make sure your money lasts as long as you do. To protect your wealth in the event of a catastrophe. To minimize taxes. To look after your family once you're gone.

What Goes Into a Financial Plan?

- Income and expense records
- Net worth statement
- Savings and budgeting goals
- Financial goals
- Retirement objectives
- Investment strategy
- Tax strategies
- Insurance planning
- Estate planning documents
- Business information (if you're a business owner)

Once your plan is in place, be sure to keep it up to date. Events that can trigger an update include births, deaths, changes in job or marital status, moving to another state, tax law changes, interest rate changes, and receiving a large inheritance.

Don't Neglect These Finer Points

Having no—or incorrect—beneficiaries on your insurance policies or 401(k)/403(b)/457 plans can cause problems later (yet it's an easy problem to prevent). "People forget to update beneficiaries, and financial planners sometimes forget, too," says Dee Lee, a Certified Financial Planner and president of Harvard Financial Educators in Harvard, MA. "With estate planning, people forget to transfer assets into a trust."

Other areas that can be neglected: employee benefits, disability insurance, long-term-care insurance and debt management.

How Often to Update?

Review your financial plan annually—even more often if you have significant life changes.

"Look at investment planning regularly," Lee says. "Asset allocation could be lopsided. You should review investment portfolios every three months. Look at tax planning on an annual basis."

Source: Financial Literacy Corporation

FUND PERFORMANCE

CalPERS 457 Deferred Compensation Performance Report

(as of September 30, 1999)

	1 Year	Since Inception	Inception Date of Fund
Core Investment Funds			
Money Market Fund	3.71%	4.22%	8/91
Stable Fixed Income Fund	4.50%	4.86%	2/95
Bond Fund	0.02%	6.84%	8/91
S&P 500 Equity Index Fund	26.91%	17.29%	11/91
Active Large Cap Equity Fund	30.07%	23.09%	2/95
Russell 2000 Index Fund	N/A	N/A	7/99
Active Small Cap Equity Fund	23.16%	11.24%	4/95
International Equity Fund	36.43%	4.56%	4/95
Conservative Allocation Fund	10.93%	9.56%	2/95
Moderate Allocation Fund	13.31%	12.90%	4/95
Aggressive Allocation Fund	17.76%	11.11%	4/95
FDIC Insured Investments			
Insured Money Market Account	N/A	N/A	10/96
Certificates of Deposit	***07/1/99***	***1/1/99***	
One Year Guaranteed CD-Simple Interest	4.75%	4.25%	
Two Year Guaranteed CD-Simple Interest	5.25%	4.25%	
Three Year Guaranteed CD-Simple Interest	5.35%	4.25%	
Guaranteed CD Plus-3 Year	2.00%	2.70%	
Guaranteed CD Max.-3 Year	*Rate Not Applicable*		

Returns shown are net of investment management and plan level expenses. Historical performance is not necessarily indicative of actual future investment performance, which could differ substantially. Investment return and principal value may fluctuate so that your investment, when redeemed, may be worth more or less than the contributions to your individual account.

Time to Up the Ante?

If you're like most investors, you're not contributing as much as you're allowed to in your savings program. Consider boosting your contribution by 1% or 2% of your pay. (If your employer matches some of your contributions, be sure to contribute enough to receive the full match. Don't walk away from free money!)

Most plans allow you to change your contribution amount at certain times of the year (e.g., monthly or quarterly). If you're not sure how or when you can make a change, talk to your benefits representative.

Source: Financial Literacy Corporation

CHOICES

Actively Managed Small Cap Fund

Manager: Brown Capital Management

Performance:

Q399	1 Year	3 Year
1.76%	23.16%	11.26%

Fee: 0.68%

Objective: The Small Cap Fund seeks to maximize capital appreciation using an active management style to purchase the stock of small to mid-size domestic companies. The fund uses a relative value, bottom-up approach to investing, focusing on undervalued companies with growth momentum. It looks to sell when fundamentals change adversely or when an investment is determined to be overvalued. The fund holds the stock of 40-50 small to mid cap companies, holding no more than 5 percent in any one security. It seeks to remain fully invested at all times with no more than 1 percent held in cash.

Investor Profile: An aggressive, long-term investor willing to accept a higher level of risk in return for potentially higher long-term returns.

LIVING TO 100?

How Not to Outlive Your Money

More Americans are living to well over 100 — are you prepared financially to live that long?

Here are some ways to put the odds in your favor:

- The sooner you start, the longer your money will have to compound (grow).
- Find a trustworthy professional to help you. A financial professional can help you identify your goals and make good financial decisions.
- Be a little greedy. Fear causes investors to play it safe; greed causes them to take risks. If you're planning to live a long time past retirement, you'll need to put a good-size portion of your money in higher-risk, higher-yielding investments.
- Have a financial professional help you evaluate and balance your need for risk and safety.
- Don't rely on the kids—or Social Security. Suppose you're 35 now and you live to be 100. By then, your kids will probably be in their 70s, and it's questionable whether Social Security will be of much help.

Think of investing as a marathon, not a sprint. The more money you invest, the earlier you invest, and the more consistently you invest, the bigger your potential payoff. And if you live to be 100, you'll want every last penny!

Source: Financial Literacy Corporation

CalPERS 457 Deferred Compensation Program

California Public Employees' Retirement System

Supplemental Savings Programs
P.O. Box 942713
Sacramento, CA 94299-2713

Making Cents is published quarterly for CalPERS 457 Deferred Compensation Program. The newsletter is not intended to provide legal, tax, or investment advice. For such advice, participants should contact their legal, tax, or investment advisers.

We are not responsible for the information published on any Web site referenced in this newsletter, nor can we confirm a web site's continuation as a live Web site.

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These reforms were originally introduced in HR 1102 (1999) and later amended into the federal Budget Bill, which Congress passed but the President subsequently vetoed. Congress and the President have since been engaged in lengthy negotiations to agree on mutually acceptable budget compromises. Meanwhile, the retirement plan reforms of HR 1102 have been folded into a new bill, HR 3081, the Wages and Employment Growth Act of 1999, which was reported out of the House Ways and Means Committee on November 11 and is pending on the House floor. CalPERS' federal representatives have closely followed the progress of these reforms through the federal legislative process and have voiced CalPERS' support. They report that although broad bi-partisan support to enact these reforms exists in Congress, it is uncertain at this stage whether the reforms will proceed to passage this year in a bill that will avoid veto. As is frequently the case with federal legislation, there may be provisions in the current bill, unrelated to retirement reform that could hold-up passage, or invite a veto. Nevertheless, the prospects for these reforms to pass eventually appear good given their broad support and lack of controversy.

Meanwhile, the 457 contribution limit of $8,000 per year, or 25% of gross compensation, whichever is less, will remain in effect for the Year 2000.